



RICARDO LARA
CALIFORNIA INSURANCE COMMISSIONER

July 15, 2025

The Honorable Gavin Newsom
Governor, State of California
1021 O Street, Suite 9000
Sacramento, CA 95814

The Honorable Mike McGuire
Senate President pro Tempore
California State Senate
1021 O Street, Suite 8518
Sacramento, CA 95814

The Honorable Robert Rivas
Speaker of the Assembly
California State Assembly
1021 O Street, Suite 8330
Sacramento, CA 95814

Re: Important Update on California's Workers' Compensation System

Dear Governor Newsom, Senate President pro Tempore McGuire, and Speaker Rivas:

I am writing to you with an important update regarding California's workers' compensation system. As you know, this system serves both injured workers and employers and, when balanced, provides medical treatment and compensation to injured workers and protects employers from excessive costs. California law charges my Department with issuing an average advisory pure premium rate each year based on our analysis of data on claims and cost trends. After more than a decade of steady or decreasing rates, this year, the data supports an increase in the average advisory pure premium rate. My order with regard to the average advisory pure premium rate reflects an early warning of growing costs in the workers' compensation system that may need further study to inform possible actions by the State Legislature and Governor.

This year, there was consensus among actuarial experts that costs are rising and a meaningful increase in the average pure premium rate is justified and supported by the data. Experts on behalf of my Department, the Workers' Compensation Insurance Rating Bureau (Bureau), and the Bureau's public members differed only slightly on how much the rate should increase. My Department's experts recommended an average advisory pure premium rate of \$1.52 per \$100 of payroll – an 8.7% increase over last year's approved rate.

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The Governor and Legislature acted over a decade ago to enact far-reaching reforms that have helped to reduce workers' compensation rates. For the past decade, the pure premium rates adopted by myself and the previous insurance commissioner have shown continued progress toward reducing excessive costs in the system while protecting injured workers. Because higher insurance rates can affect businesses' ability to hire and sustain financial growth, it is important to be aware of early warning signs and respond appropriately.

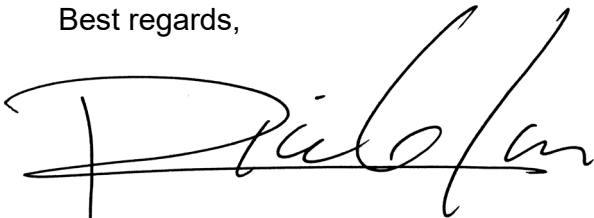
My Department's independent analysis has identified several drivers of increased costs namely:

- Higher medical treatment and medical-legal costs
- Escalating costs associated with adjusting claims
- A greater number of projected cumulative trauma claims

As a result of these particular cost drivers, accident-year combined ratios over the past few years through December 31, 2024, have risen significantly. Combined ratios are an important measure of insurance companies' condition, reflecting the difference between projected losses, loss adjustment expenses, other insurer expenses for an accident year, and the calendar year earned premium; a ratio above 100% reflects that companies are spending more on claims compared to the premium earned. For the most recent four accident years, the projected combined ratio has exceeded 110% and is estimated to be 123% in 2024 -- the highest level in nearly 15 years.

Attached are two documents -- my Department staff's Proposed Decision and Order along with my Order adopting my staff's recommendation -- that provide more information on these cost drivers along with my Department's reasoning for supporting an increase in the average advisory pure premium rate. I believe the data available by my Department can inform policy action, and I commit my Department's actuarial expertise to provide further insights to assist with any potential future public policy efforts. I look forward to working with you as we continue to protect our state's injured workers and businesses.

Best regards,

A handwritten signature in black ink, appearing to read "Ricardo Lara", written over a horizontal line.

RICARDO LARA

Insurance Commissioner

State of California

cc: The Honorable Lola Smallwood-Cuevas, Chair, Senate Committee on Labor, Public
Employment and Retirement
The Honorable Tony Strickland, Vice Chair, Senate Committee on Labor, Public
Employment and Retirement
The Honorable Lisa Calderon, Chair, Assembly Committee Insurance
The Honorable Greg Wallis, Vice Chair, Assembly Committee Insurance

Attachments